OPG Participation in Fair Hydro Plan
COMMUNICATIONS

Background

The *Ontario Fair Hydro Plan Act, 2017* (the Act) received Royal Assent on June 1, 2017. The aim of the Fair Hydro Plan (the Plan) is to reduce electricity bills for residential, farm, small businesses and other eligible consumers by refinancing a portion of the Global Adjustment (GA) costs over a longer time period.

OPG will be a key player in this plan, the legislation appointed OPG as the Financial Services Manager of the Plan and provides for OPG to establish a financing entity. The regulation under the Act provides details on the structural, operational and financial elements required to implement the Plan.

OPG's Board of Directors has approved OPG's involvement with the Plan on commercial terms. OPG has established the Fair Hydro Trust (the Trust) as the financing entity contemplated by the Act. The Trust is responsible for refinancing a portion of GA payments and spread recovery of these costs over a longer period of time. The Trust is structured as a ring-fenced, special purpose vehicle that would operate outside OPG's regular operations. Through this ownership and OPG's control over the key activities of the Trust, the Company will consolidate the financial results of the Trust in its quarterly financial reports.

The Trust will periodically purchase an investment interest in the deferred GA costs from the IESO. In order for the Trust to finance the deferred portion of the Global Adjustment costs, it will incur senior debt from capital markets and subordinated debt from OPG. The Province is expected to provide 44 per cent of the total funding requirement through an equity injection in OPG. OPG expects to provide 5 percent of the total funding requirement through its subordinated debt investment in the Trust.

In October 2017, OPG issued $500 million of senior notes payable with a ten-year term and an effective rate of 3.43 percent. The offering was made under OPG's $2 billion prospectus dated September 12, 2017. The net proceeds will be used for general corporate purposes and the financing of OPG's subordinated debt investment in the Fair Hydro Plan.

The first set of transactions of the Trust took place in the 4th quarter of 2017. As of July 1, 2017 customer bills (based on a typical Ontario customer) were reduced by a total of 25% including the rebate of the Provincial portion of the HST and the removal of some other charges from the bill. Beginning May 1, 2018 customer bill increases will be limited to the rate of inflation for the next four years.

Reputational Risks

- OPG's investment "spread" and management fees from the program could be subject to criticism if OPG is seen to be profiting from ratepayers.
- The vehicle, when consolidated, will result in higher net income but will dilute the ROE due to the higher equity needed to support the program.
- Under the Plan, rates will start to see significant increases shortly after OPG files its next rate application to the OEB in 2021, which could tie OPG to rate increases that are not its doing.
- Longer term, as repayments start to be built into rates, OPG could be unfairly seen as the cause of these increases.

Communications Objectives

- Clearly define OPG's role as the Financial Services Manager, and Government's role as the Policy Centre.
- Enhance OPG's brand by demonstrating it has the financial strength and sophistication to execute a successful debt offering.
- Set the stage so that going forward, each subsequent debt offering will be business as usual.

Communications Approach

- OPG's CFO will provide a technical briefing to select business and Queen's Park gallery reporters on February 8, 2018 at 11:15 a.m. (TBC depending on final pricing date)
- It is recommended the technical briefing be held in association with this first offering only, to ensure reporters understand the process, the final debt rating, and any technical matters related to this first offering.
- Subsequent offerings will proceed business as usual, with public and media notification provided via the news releases issued by the rating agencies upon close of each traunch and subsequently reporter in OPG's quarterly financial statements.
- OPG will continue to respond to media enquiries on the matter as required.

Timeline

September 12, 2017 – OPG issued $2 billion prospectus.

October 2017 – OPG completes successful issuance of $500 million in ten-year notes.

December 2017 – Fair Hydro Trust established and first traunch of debt transferred from IESO.

January 29, 2018 – OPG begins investors' roadshow, looking for buyers of initial FHP debt offering.

February 2, 2018 – Investors' roadshow ends.

February [5 or 6], 2018 TBC – OPG invites media to technical briefing through media advisory.

February 6, 2018 - Opens bids for buyers.

February [6 Or 7] 2018 ~10 am- Bids close

February [6 or 7], 2018 ~XX am – Buyers notified if successful bidders, price / interest rate established.

February [6 or 7], 2018 ~11am– Bloomberg posts stats on deal

February [6 or 7], 2018 ~mid-day – Briefing at 700 University on first round of debt offering.

February 9, 2018 – Final deals close. Rating agencies provide final rating for the debt by news release over newswire and on SEDAR.

Q2 2018 – Second round of debt offering begins.

Key Messages

- This first debt offering for the Fair Hydro Trust was priced at the lowest financing rate in the Canadian energy sector.

- Two green funds have invested in this first round of financing. They recognized the role this fund plays in financing green energy projects and keeping Ontario as one of the greenest electricity sectors in North America.
- OPG is committed that the Fair Hydro Trust is managed in the most efficient and transparent way and will publically report on the Trust through its quarterly financial statements.

Supplementary Messages

OPG's Role in the Fair Hydro Plan

- The Ontario government asked OPG to participate in the Fair Hydro Plan which aims to reallocate the costs of clean energy initiatives over a longer time period and provides immediate relief to specified consumers through lower electricity rates until 2021.
- To implement the financing program, the Fair Hydro Trust was established to finance the shortfall resulting from the rate reductions and other financing costs as mandated by the Fair Hydro legislation.
- As the policy maker, the government stated its objective to have the costs of the program be supported by the energy sector.
- OPG was appointed by the legislation to be the Financial Services Manager of the Fair Hydro Trust, in part, due to its in-depth experience in the Ontario energy market system, capital markets, and fund management.
    - In addition to executing hundreds of millions in project financing over the past several years, OPG completed its first bond offering in the Canadian public market with $500 million unsecured 10-year bonds in October 2017.
    - OPG currently manages approximately $22 billion in nuclear funds through the Decommissioning Segregated Fund and the Used Fuel Segregated Fund, and $15 billion in pension funds.
    - OPG has developed solid investor relationships and has a large investor base in the structured finance space for financing Ontario's Fair Hydro Plan (OFHP) initiative.

Management Fees

- Credit Rating companies expect OPG to manage this Trust as a commercial entity.
- The Fair Hydro Act provides for OPG to collect a management fee, which reflects the actual costs of borrowing.
- The Management fee is for the activities required to manage the financing, issue new debt, process financing costs, arrange for financing services (legal, rating agency, trustees), report on activities and positions, prepare documents required by legislation and regulation, and other duties as required by the documents establishing the trust and requests by external entities.
- The formula will be set out by regulation.
- Because OPG is owned by the Province, any additional net income from management fees and interest flow through to all Ontarians.

Fair Hydro Trust and Debt Financing

- OPG is committed to ensuring that the financing program is executed in the most efficient and transparent manner.
- The Fair Hydro Trust was established Dec. 20, 2017. We worked closely with outside advisors to ensure this new entity was structured so that it functions efficiently but does not impact OPG's existing operations.

- By mid-December 2017, $1.2 billion in GA payments had been deferred under OFHP and held by IESO as a regulatory asset. OPG's Fair Hydro Trust purchased this asset in December 2017, and the purchase was financed as follows:
    - Borrowing by the Trust through a bank syndicate in December, [$610 million] of which was refinanced on Feb. [X] 2018 by senior debt from capital markets;
    - Remainder is being financed by OPG [NTD: confirm whether using as a speaking point]

- The first debt offering was [NTD: Placeholder about success/level of interest in the offering]
- In subsequent months OPG's Fair Hydro Trust will purchase subsequent assets from IESO (i.e., approximately $200 million per month) and raise any required financing.
- The next debt offering is expected to be in Q2 2018.

Supporting messages

- We remain the province's lowest cost electricity generator, producing half of the province's power at a cost that's about 40 per cent less than other generators.
- OPG is a natural to manage this long-term, major financial transaction as it has a proven track record in this area, with extensive experience and expertise in the electricity market, capital markets, regulation, and fund management.

Tactics

Tactic	Assigned Task	Timelines
Deck for Technical Briefing	Neal / Brayden to work with John Lee / Lubna to fill in blanks and finalize.	Feb 5 to Ministry Feb. 6 – 7 to finalize presentation with all available information.
Q&A on Fair Hydro Trust and related issues	Neal / Brayden to work with John Lee / Lubna on draft, Janice to share with Jennifer, Ken and others as appropriate for final approval.	Feb. 2 for first draft with blanks TBC when information is known
Key Messages	Neal / Brayden to update existing Key Messages and add additional messages for Financial and Policy-related matters for approval (sign off by Janice, Jennifer, Ken)	Feb. 2 for first draft of KMs with fill in the blanks for some data TBC when known.

Technical briefing	
Proposed Date and Time	**Location**
February [6 or 7], 2018 - mid-day **TBC**	OPG Headquarters, 700 University, CR2 boardroom **TBC**
Description	
OPG CFO Ken Hartwick and OPG Treasurer John Lee provide an overview of the Fair Hydro Plan trust and the results of the first public debt offering.	
Speakers & Attendees	
Reporters invited: • Geoff Zochodne, Financial Post • Maciej Onoszko, Bloomberg • Shawn McCarthy, Globe and Mail • David Reeley, Ottawa Citizen • Queen's Park Press Gallery **OPG staff speaking:** • Ken Hartwick • John Lee **Moderator:** • Neal Kelly	

Questions & Answers

Q: Why is OPG doing this?

- The Ontario government asked us to play a role in reducing customer rates by setting up and managing a trust to implement the Global Adjustment Refinancing component of the Fair Hydro Plan.
- We were asked to do this because of our expertise in the Ontario energy market system, our regulatory experience and our experience with managing large monetary funds.
- As Ontario's low cost generator we see our role as the Financial Services Manager of the Fair Hydro Trust as another way we can play a part in helping customers manage energy costs.

Q: Is this the right thing to do? Aren't you just kicking the problem down the road?

- We are hear today to discuss the the latest financial transactions related to the Fair Hydro Trust. Any policy related questions are best answered by the Ministry of Energy.

Q: Will you make money on this?

- OPG will be providing some funding in support of the program. It is anticipated that the majority of the funding will be provided in the public debt markets. OPG returns will be commercial and consistent with the rest of the program funding structure. OPG will also receive fees for managing the entity.
- The financial results will be reported transparently in OPG's quarterly financial results.
- Remember that OPG is owned by the province and the people of Ontario. Any profits made by OPG are positively reflected in the Government's financial position.

Q: What costs do OPG's management fee recover?

The Fair Hydro Act provides for OPG to collect a management fee. The Management fee is for the activities required to manage the financing, issue new debt, process financing costs, arrange for financing services (legal, rating agency, trustees), report on activities and positions, prepare documents required by legislation and regulation, and other duties as required by the documents establishing the trust and requests by external entities. The formula will be set out by regulation

Q: Is OPG profiting from managing this fund?

Credit Rating companies expect OPG to manage this Trust as a commercial entity. Remember that OPG is owned by the province and the people of Ontario. Any profits made by OPG are positively reflected in the Government's financial position.

Q: Where will the money go for the management fee?

OPG is a commercial entity and the management fee reflects the actual costs of borrowing in Fair Hydro Trust. Remember that OPG is owned by the province and the people of Ontario. Any profits made by OPG are positively reflected in the Government's financial position.

Q: Doesn't this mean that the province is profiting off the backs of ratepayers?

Financing the Global Assessment through the electricity system vs. within government is a policy decision made by government to ensure that the costs are born by the ratepayers who received the benefits of the investments. OPG has a relatively low cost of capital and expertise in debt financing in the financial markets.

Q: Critics of the Fair Hydro Plan say the government is hiding the true cost of its debt on OPG's balance sheet.

The Fair Hydro Plan was a policy decision by government, and any questions regarding that decision are best answered by the policy centre. He financial results of the Fair Hydro Trust will reported separately in OPG's quarterly financial reports. OPG was asked to manage the Fair Hydro Trust as a commercial entity because of its relatively low cost of capital and expertise in financial markets.

Q: What is the role of OEB in the Fair Hydro Plan?

OEB will review and approve the management fees within certain established guidelines and restrictions in order to maintain a commercial basis for the role of OPG

Q: How is the Trust arms-length/ring fenced from OPG's operations?

The Trust will incur the debt independently. Debtholders will only have claim on the assets of the trust which will consist of a claim on consumers to pay the charge established by legislation

Q: Is therea separate organization administering the fund or will they be OPG employees?

OPG provides various services to the Trust as the Financial Services Manager and may provide some Administrative Services. Some services may be provided by external organizations.

Q: How will the Trust report to the board or executive team?

Activities of the Trust are determined by legislation, regulation and various contracts. A Management Oversight Committee consisting of three senior executives (CEO, CFO & CAO) will approve / oversee key aspects of the trust's activities.

Q: How will the funds transfer to the Trust from OPG?

Each time the Trust acquires an asset it obtains the required funds by issuing debt in the capital markets and borrowing from OPG. OPG provides the funds in line with the funding from the capital markets so that the Trust can provide those funds to the IESO which then transfers to the trust the claim on future consumers.

Q: Are there benefits to OPG being able to borrow in capital markets?

Yes absolutely. Borrowing in capital markets brings a high level of expertise and discipline to OPG business operations.

Q: What interest rate is OPG receiving for the subordinated debt?

FINANCE PLEASE PROVIDE ANSWER – do we want to disclose?

Q: Why is OPG receiving higher interest rates than institutional investors?

OPG receives higher rates because it is investing in subordinated debt, which carries higher credit risk and a lower credit rating. FINANCE – do we need/want to expand?